

Is China on the verge of a cyclical recovery?

China remains a major source of uncertainty for the global growth outlook this year. In fact, the country is behind a significant part of the global slowdown story over the last several quarters. Late last year, the Chinese economy was expected to grow by 5.6% in 2022. At the time of writing, however, Bloomberg consensus forecasts pointed to an expected expansion of only 3.5% for the same period.

Importantly, Chinese growth stood even still last quarter. This was the worst economic performance of China in more than 30-years, excluding Q1 2020, when the country rapidly reacted to the initial wave of the Covid-19 pandemic. The weak print came on the back of a gradual but protracted slowdown that started about a year ago, after the strong initial recovery from the pandemic.

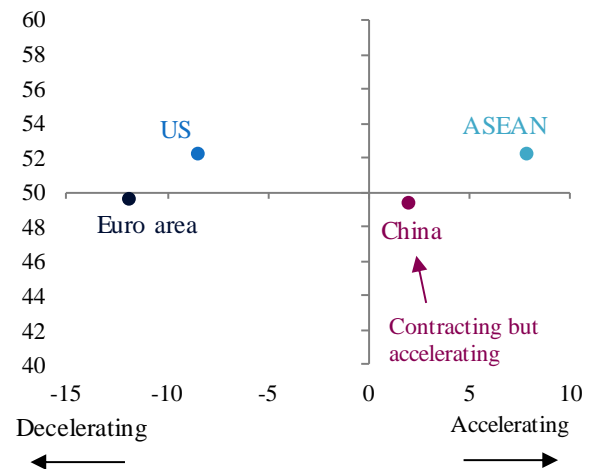
negatively industrial production in certain provinces of China, due to power rationing and production shutdowns. Fourth, the comprehensive campaign to tighten regulation on the real estate and corporate sectors, which dampened business sentiment and contained a more significant rebound in private investments.



Sources: Haver, QNB analysis

In our view, the slowdown of China was caused by four main factors. First, the early withdrawal of both fiscal and monetary stimulus, which did not help to support aggregate demand when households were still cautious about the medium-term economic consequences of the global pandemic. Second, the combination of new waves of Covid-19 variants with China’s Zero-Covid policies led to “stop-and-go” patterns in activity that punished any momentum in either consumption or investment growth. Third, the energy crisis in the second half of last year affected

Key manufacturing PMIs in August 2022
 (Latest PMI versus recent peak or bottom)



Sources: Haver, QNB analysis

However, despite the negative momentum, there are early signs that the Chinese economy may be about to turn a corner into a recovery mode. The manufacturing Purchasing Managers’ Index (PMI) of China, a survey-based indicator that measures whether several components of activity improved or deteriorated versus the previous month, seemingly bottomed in April this year. Traditionally, an index reading of 50 serves as a threshold to separate contractionary (below 50) from expansionary (above 50) changes in business conditions. While higher frequency data are still indicating that China’s economy is contracting or running below normal levels, it started to accelerate again in recent months, due to a moderation of Covid woes and the re-opening of some important cities. This places China on a similar path of Southeast Asian (ASEAN) economies, which struggled last year due to the pandemic but are now on a recovery phase. In contrast to the economies in Asia, activity is slowing

down and even contracting in other major advanced economies.

Chinese policymakers are becoming more concerned about the economic slowdown and are starting to ease more aggressively. In recent weeks, the People's Bank of China (PBoC) trimmed interest rates again for several segments, indicating a deepening of its "dovish stance." In addition, it is ramping up liquidity injections via open market operations.

We expect the "pandemic risk" to also moderate significantly in China, particularly after Q4. This is due to the development of new, more effective, Chinese mRNA vaccines against new variants of the Covid-19 virus as well as the availability of efficient antiviral pills. Over time, these developments should favour the abandonment of Zero Covid policies, allowing activity to gain momentum in a more sustainable fashion.

After several quarters of a comprehensive regulatory tightening in the key real estate and technology sectors, authorities are now moderating their positions and providing more clear guidance to China's large corporates. Businesses are quickly

adjusting to the new business environment and uncertainty should diminish over time. This will create the conditions for higher investments over the coming quarters.

Finally, energy constraints have also eased significantly. While China is currently experiencing energy problems in its hydro power plants, due to droughts and insufficient inflows into the mega Three Georges Dam, the "coal crisis" from last year has been controlled. Coal availability surged while prices collapsed from very high H2 2021 levels. On balance, the energy situation is much better now for China, as coal accounts for about 60% of energy consumption in the country, versus 17% for hydro power.

All in all, we believe that activity in China is currently bottoming and the country is on the verge of a cyclical recovery with the economy accelerating beyond 2022. This will likely help to mitigate the negative effects of the slowdown in major advanced economies and positively contribute and support global growth.

QNB Economics Team:

[Luiz Pinto*](#)

Senior Economist
+974-4453-4642

* Corresponding author

[James Mason](#)

Senior Economist
+974-4453-4643

DISCLAIMER: *The information in this publication ("Information") has been prepared by Qatar National Bank (Q.P.S.C.) ("QNB") which term includes its branches and affiliated companies. The Information is believed to be, and has been obtained from, sources deemed to be reliable; however, QNB makes no guarantee, representation or warranty of any kind, express or implied, as to the Information's accuracy, completeness or reliability and shall not be held responsible in any way (including in respect of negligence) for any errors in, or omissions from, the Information. QNB expressly disclaims all warranties or merchantability or fitness for a particular purpose with respect to the Information. Any hyperlinks to third party websites are provided for reader convenience only and QNB does not endorse the content of, is not responsible for, nor does it offer the reader any reliance with respect to the accuracy or security controls of these websites. QNB is not acting as a financial adviser, consultant or fiduciary with respect to the Information and is not providing investment, legal, tax or accounting advice. The Information presented is general in nature: it is not advice, an offer, promotion, solicitation or recommendation in respect of any information or products presented in this publication. This publication is provided solely on the basis that the recipient will make an independent evaluation of the Information at the recipient's sole risk and responsibility. It may not be relied upon to make any investment decision. QNB recommends that the recipient obtains investment, legal, tax or accounting advice from independent professional advisors before making any investment decision. Any opinions expressed in this publication are the opinions of the author as at the date of publication. They do not necessarily reflect the opinions of QNB who reserves the right to amend any Information at any time without notice. QNB, its directors, officers, employees, representatives or agents do not assume any liability for any loss, injury, damages or expenses that may result from or be related in any way to the reliance by any person upon the Information. The publication is distributed on a complementary basis and may not be distributed, modified, published, re-posted, reused, sold, transmitted or reproduced in whole or in part without the permission of QNB. The Information has not, to the best of QNB's knowledge, been reviewed by Qatar Central Bank, the Qatar Financial Markets Authority, nor any governmental, quasi-governmental, regulatory or advisory authority either in or outside Qatar and no approval has been either solicited or received by QNB in respect of the Information.*